

Service Date: October 6, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application of)	UTILITY DIVISION
the TOWN OF DODSON for Authority to)	
Increase Rates and Charges for Water)	DOCKET NO. 87.3.17
Service in its Dodson, Montana Service)	
Area.)	ORDER NO. 5294

FINAL ORDER

APPEARANCES

FOR THE APPLICANT:

Roland Marney, Town Clerk, Town of Dodson, Box 98, Dodson,
Montana 59524

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel, 34
West 6th Avenue, Helena, Montana 59620

FOR THE COMMISSION:

Tim Baker, Staff Attorney, 2701 Prospect Avenue, Helena,
Montana 59620

BEFORE:

Danny Oberg, Commissioner and Hearing Examiner

BACKGROUND

1. On March 17, 1987, the Town of Dodson (Applicant or Town) filed an application with this Commission for authority to increase rates and charges for water service to customers in its

Dodson, Montana service area. The Applicant requested an average increase of approximately 39 percent which constitutes an increase of approximately \$6,943 in annual revenues.

2. On June 30, 1987, following issuance of proper notice, a hearing was held in the Sacred Heart Church, Dodson, Montana. For the convenience of the consuming public there was also a night session, held at the same location. The purpose of the public hearing was to consider the merits of the Applicant's proposed adjustments to existing water rates. At the close of the public hearing, all parties waived their rights to a proposed order and stipulated that the Commission could issue a Final Order in this Docket.

ANALYSIS AND FINDINGS OF FACT

3. At the public hearing the Applicant presented the testimony and exhibits of the following witnesses:

Roland Marney, Town Clerk
Dale Dvorshak, Mayor, Town of Dodson

These two witnesses testified concerning the need for additional revenues in order to make principal and interest payments on a construction loan for a new well, to pay a percentage of the salary for a full time employee, and to meet the increased costs of operating the utility.

4. During the course of the public hearing 14 public witnesses appeared and offered testimony regarding the Town's application for increased water rates. The majority of the public

witnesses expressed opposition to the Town's proposal to hire a full time employee and generally conceded that the Town needed to develop the new well.

Development of a New Well

5. In response to Commission staff data requests the Town indicated that it had constructed a new well in 1986 because the old well was dry at times during the summers of 1984 and 1985. The cost of financing and constructing the new well totalled approximately \$30,000.

6. The cost of the new well under consideration in this Docket will be funded through a loan agreement with the Montana Department of Natural Resources (DNRC), under a program passed by the 1983 Montana Legislature. At the time of hearing, the DNRC had already committed to funding the cost of the new well, upon both implementation of increased rates sufficient to meet the requirements of the loan agreement and approval by the Farm Home Administration (FHA) of the Town's issuance of additional debt (approval of the issuance of additional debt by the FHA is a condition of an existing bond indenture).

7. The contention that construction of the new well was necessary was also supported by the public testimony in this Docket. A number of the public witnesses testified that during the summer months, and prior to construction of the new well, they had experienced a total loss of water service due to the inadequacy of the existing well.

8. The Commission finds, based upon the testimony in this Docket, that the Town's construction of a new well was reasonable and prudent.

9. Mr. Marney testified that the loan agreement with DNRC provided for a principal of \$30,000 to be repaid over 20 years at an interest rate of 7.29 percent during the first 5 years and 9.29 percent for the remaining 15 years. The annual revenue requirement for servicing this debt obligation will be \$3,300 (\$275 per month).

Additional Employee

10. The most controversial issue in this proceeding was the Town's decision to hire an additional employee to perform various job functions related to the water utility, sewer utility, street department, insect control, and general maintenance. Since this employee would be working in part for the water utility, the Town Council determined that a portion of the employee's salary should be charged to water utility operations. The Town witnesses testified that the total direct monthly compensation of this employee would be \$1,000, of which \$350 per month would be charged to the water utility. This represents a recovery of 35 percent of the employee's direct compensation from water subscribers.

11. None of the 14 public witnesses that testified during this proceeding supported the hiring of an additional employee. The witnesses gave various reasons for their opposition. Gener-

ally, these public witnesses argued that there was not sufficient work in the various departments of local government to keep an additional employee occupied. In addition, the monthly salary being offered would not attract a certified water and sewer system operator. Further, the \$350 monthly charge being assessed to the water utility, raising the monthly water bill of each ratepayer by approximately \$5.00, was unjustified and excessive. Finally, even if an additional employee is hired to work part time in the water department, the Town would still require the services of an outside contractor to perform repairs and maintenance on the system. The testimony in this docket clearly indicates that the the Town's decision to hire a full time employee is not supported by the utility subscribers.

12. In the Commission's opinion, the Applicant has failed to meet its burden of proof concerning the need for additional revenues to constitute part of the salary of a full time employee. The Applicant did not establish that the employee would devote approximately 35 percent of his time to water utility operations, thereby warranting the collection of that percentage of its salary from water utility subscribers. In response to data requests submitted by the Commission staff, the Town indicated that the amount of time the new employee would dedicate to the water department would be impossible to approximate. In the same responses, the Town stated that in an average month, the new employee would devote about 30 hours per month to the water department. The Applicant also failed to show that the hiring

of an employee would reduce its reliance on the services of outside contractors to perform repairs and maintenance on the system. The evidence presented does not clearly demonstrate that the Town needs the requested revenues to pay for an additional employee for the water utility. Further, when this evidence is weighed against the burden placed upon ratepayers by the Town's request for additional revenues, the resulting balance favors the ratepayers. Based on the preceding discussion, the Commission finds that the Applicant's request for additional revenues to constitute a percentage of the salary for a full time employee should be denied.

13. Typically, water utilities the size of the Town of Dodson contract with an engineering firm, another utility in close proximity, or a qualified individual to obtain the services of a certified operator. The Commission would recommend that the Town explore these less expensive alternatives in attempting to acquire the services of a certified utility operator.

Rate Design

14. The Applicant proposes to continue the current water rate structure and generate the increased revenue determined appropriate in this order by increasing rates and charges for all water services on a uniform percentage basis. The rate design proposed by the Applicant appears to equitably spread the increase among the various customer categories. Therefore, the

Commission accepts the Applicant's proposed rate design in this Docket.

15. To generate the proposed annual revenue increase of \$6,493 sought in this application the Applicant requested that the Commission authorize a uniform 39.4 percent increase in all rates and charges for water service. The Commission in this order is authorizing the Applicant an annual revenue increase of \$3,300, slightly more than half of the original request. To generate the authorized annual revenue increase through application of a uniform percentage, the Applicant needs to increase all rates and charges by 20.0% ($[3,300 - 6,493] \times 39.4\% = 20.02\%$). The Commission finds that the Applicant should submit tariff schedules that reflect a 20.0 percent increase from the currently effective rates and charges for water service.

Miscellaneous

16. During the hearing it was brought to the Commission's attention that certain consumers connected to the Applicant's water system are provided water service at no charge. It is unlawful for a utility to provide free utility service to consumers. Section 69-3-305, MCA. The Applicant should immediately correct this situation.

17. The Commission finds that the Applicant should discontinue its practice of providing free water service to certain consumers. The Applicant must immediately notify each such consumer that this unlawful practice will be discontinued.

As soon as practicable, the Applicant should start phasing in the full appropriate charge for these consumers.

CONCLUSIONS OF LAW

1. The Applicant, the Town of Dodson, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over Applicant's rates and service pursuant to Section 69-3-102, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

NOW, THEREFORE, IT IS ORDERED THAT:


1. The Town of Dodson shall file rate schedules which reflect an increase in annual revenues of \$3,300 for its Dodson, Montana service area. The increased revenues shall be generated by increasing rates and charges to all customer classifications as provided herein.

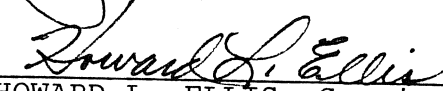
2. The rates approved herein shall not become effective until approved by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 5th day of October, 1987, by a vote of 5 - 0 .

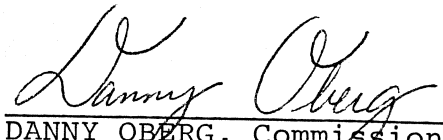
BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


CLYDE JARVIS, Chairman

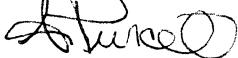

JOHN B. DRISCOLL, Commissioner


HOWARD L. ELLIS, Commissioner


TOM MONAHAN, Commissioner


DANNY OBERG, Commissioner

ATTEST:



Ann Purcell
Acting Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.